National Credit Union Administration Chairman Debbie Matz
Remarks to National Association of Federal Credit Unions

"Growing Together"

Nashville, Tennessee
July 26, 2012

Thank you. I always look forward to participating in NAFCU's Annual Conference. It's one of the best meetings in the credit union industry, for learning, for networking, and for the wonderful venues.

Before I begin, I want to thank Fred Becker and his talented staff, especially Dan Berger and Carrie Hunt. When they contact me or my staff, which is often, they can be counted upon to raise important issues and propose creative solutions to improve the regulatory environment for credit unions.

But for me, the best part about NAFCU meetings is the opportunity to talk with NAFCU members. I always learn so much from you about the issues that are important to your credit unions.

So Fred never has to ask me twice to speak at this conference. And when I heard we would be together in Nashville, I was reminded of a country song – the Rodney Adkins song, which is built on a quote from Winston Churchill: "If you're going through hell, keep on going."

That sounds a lot like what the credit union industry has done for the past few years. So it's fitting that your award winners are being recognized today for just that.

I think what John Tippets did with North Island Financial Credit Union is both a metaphor and a template for where we stand – and how to move forward.

Two-and-a-half years ago, the credit union system teetered on the brink of collapse. We had only begun to sort out our options for overcoming the crisis facing the corporate system. At the same time, we were confronting hundreds of CAMEL code 4 and 5 credit unions, 14 of which were over $1 billion. I was told several of these might not survive.

North Island was one of the credit unions on the brink of failure. I was told that there was virtually no way that North Island would make it as a stand-alone credit union. But John and his board were not willing to give up. There were a lot of late nights, and a lot of tough choices.

John, you opened an ongoing dialog with NCUA on the status of your credit union and shared the strategic options that you and your board were considering. You were able to pull North Island back from the brink, and lead a historic turnaround. And, you willingly came out of retirement to accept this enormous challenge.

Now, John, because you are preparing to retire – for a second time – I want to take this opportunity to thank you for your leadership, your inspiration, and your steadfast commitment to a safe, sound and thriving credit union system.

Of course, John would be the first to tell us, he didn't do this alone. He was fortunate to have very engaged board members who supported the tough decisions and a very hard-working staff. In addition, John's board chairman, Rebecca Collier, told me that their credit union might not have survived without the support and direction from a very dedicated Problem Case Officer from NCUA. It is so gratifying to hear that working together, we were able to turn around one of the most troubled large credit unions.

Just as North Island has continued to improve, so, too, has the entire industry. And I think it's worth taking a moment to recognize just how remarkable this achievement has been.

The credit union industry isn't just stable. It's growing. Loans, shares, assets, and return on assets have all increased.

Delinquencies and charge-offs have declined.

And the corporate resolution is moving forward as planned, with no interruption of service to members.

These successes resulted from the efforts of everyone in this room – credit union officials and NCUA – in addition to the improving economy.

We all went through hell – and we just kept going.

Now let's take a moment to stop and look at where we are.

Honestly, who would have thought, in such a short period of time, that credit union industry assets would reach the $1 trillion milestone; that membership would grow by 2 million in just 15 months; that return on assets would rise from just 18 basis points in 2009 to a healthy 84 basis points today – a remarkable rebound.

I know it has been a tough road. In addition to our tighter supervision, you've been inundated with new and proposed regulations from other agencies.

So, as you may have noticed, we've slowed the pace of our own rule writing. We have focused on Regulatory Modernization and relief, and using our own resources better and more efficiently.

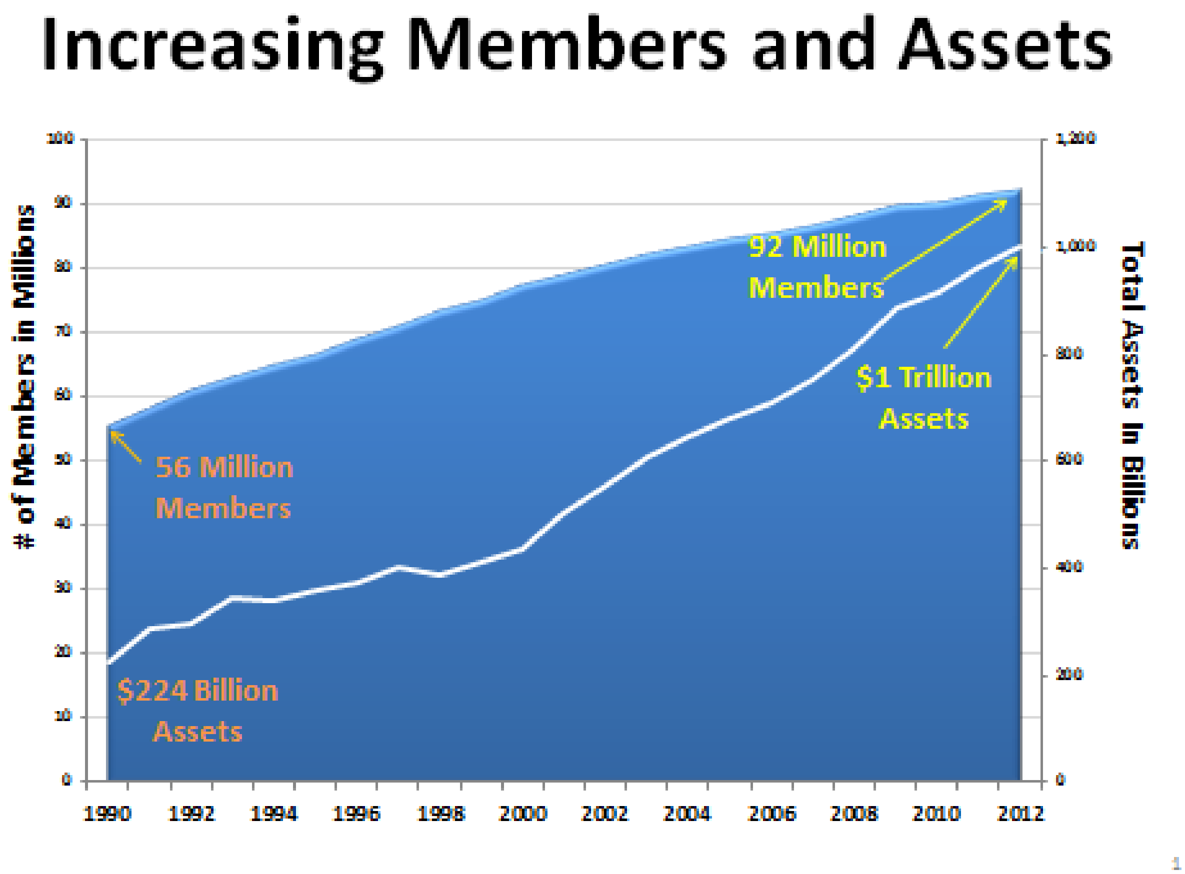
NCUA owes it to you to provide the best regulatory oversight while maintaining the lowest regulatory burden possible, consistent with safety and soundness.

We've done all this because we heard you. And we intend to keep listening.

Today I want to talk about how we will continue to move forward.

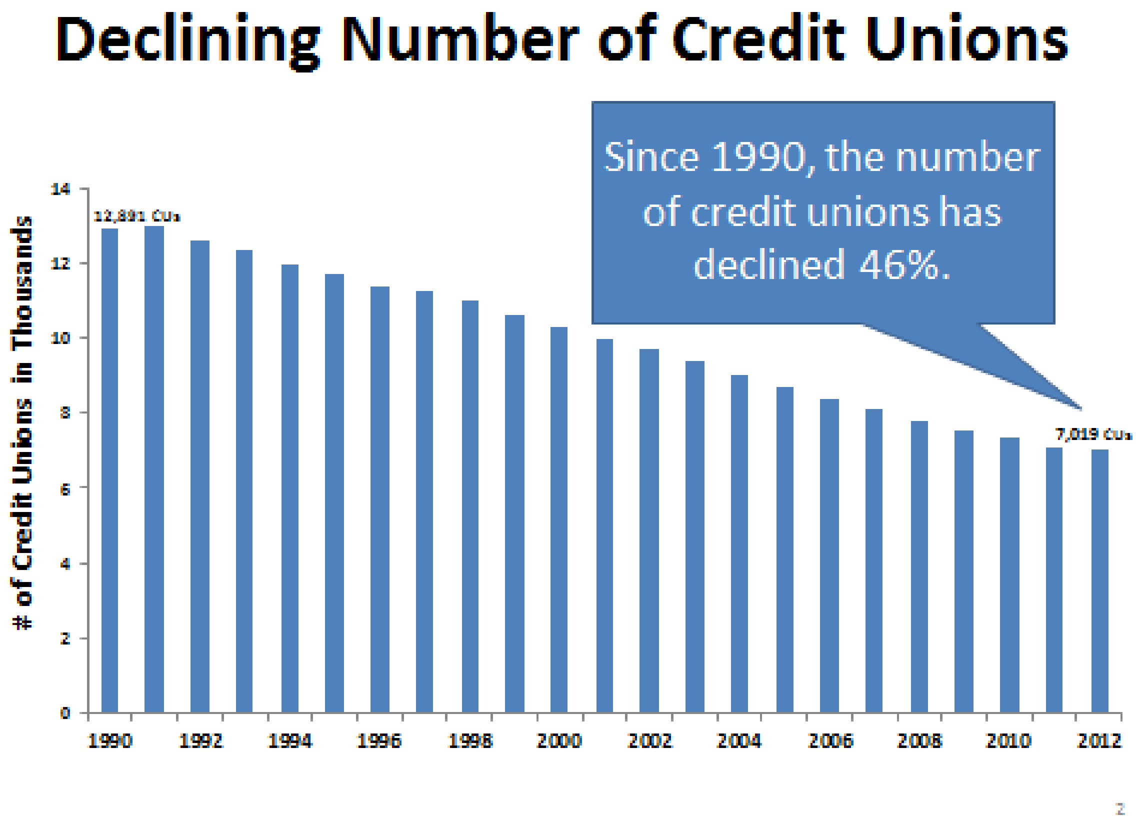
At a time when the credit union industry is growing, it's appropriate to focus my remarks on the theme of "growing together." As your credit unions grow both in terms of assets and complexity, NCUA needs to increase our sophistication to keep up with you. The relationship between NCUA and credit unions has to grow and evolve as well. One-size-fits-all supervision simply is no longer appropriate in this new credit union landscape. And that's what I want to discuss with you today.

So what is this new landscape?



For starters, it's a larger landscape in terms of members, and in terms of assets. Soon, this will be an industry with 100 million members. And as I said, the $1 trillion signpost is already in the rear-view mirror.

But it's also a shrinking landscape, as you see, in terms of the number of credit unions.



So fewer and fewer credit unions are holding more and more total assets.

In other words, today's credit union industry is growing and changing at a faster pace. And that means NCUA has to grow and change, too.

Part of growing together means making sure we explain to you where we're coming from – and what we're working towards.

Let me start by setting out a few basic principles for how we plan to manage and mitigate the risks that threatened our industry's survival in the last crisis.

First, and foremost, we're convinced that a one-size-fits-all approach to supervision just won't work for the credit union industry. Supervising a $10 million credit union the same as a $10 billion credit union doesn't make sense. As we all know, larger risks have wider consequences.

Second, we're focusing supervision on credit union activities that pose the most risk – and determining which areas of risk are worth spending time on. As an example, we're training our examiners to better distinguish between Documents of Resolution and exam findings.

Now, don't get me wrong – we're not going to start giving free passes when we see unacceptable risks. However, DORs should be issued on items that are of material risk to the Share Insurance Fund. But less critical issues will be reported as exam findings. Going forward, you're going to notice that difference.

Third, NCUA is going to reshape the regulatory environment based on the input of a group of world-class experts: you. As I said earlier, our regulatory approach begins with listening. Here's what we've heard:

You said you wanted reg relief on troubled debt restructuring, RegFlex, fields of membership, and low-income designations. In each of these areas, we heard you – and we acted.

We have taken the President's Executive Order on regulatory relief seriously, and are already in compliance. But we haven't stopped there.

In my Listening Sessions around the country, I've been compiling many of your ideas – ideas that we can act on. And I intend to initiate NCUA Board action on your ideas this fall.

For example:

We're planning to expand the districts that comprise rural fields of membership.

We will soon be approving video teller machines as service facilities for federal credit unions to reach new employee groups and underserved areas.

We'll consider allowing credit unions to buy Treasury Inflation Protected Securities (TIPS).

We're looking at removing the requirement for personal guarantees on certain member business loans.

We're evaluating whether to allow federal credit unions to increase the maximum application fee for short-term small loans so it would be more cost-effective to offer alternatives to payday loans.

And we're studying the impact of increasing the definition of a "small" credit union. When I joined the Board 10 years ago, we voted to increase the definition of a small credit union from $1 million to $10 million. Now it's time to take a look at updating that asset size so that more credit unions could receive regulatory relief and technical assistance from NCUA.

Each of these ideas came from the same source: you.

So as we listen to your ideas, we're also looking closely at the new industry landscape, and asking: how can we do our jobs better?

And as we look ahead, we have to ask ourselves how to apply the key lesson of the financial crisis: that concentrating financial risks can have wide-ranging consequences.

Right now, the credit union industry is becoming more concentrated. The largest 5% of credit unions hold over 63% of all assets.

But that's not where NCUA's efforts or resources are concentrated.

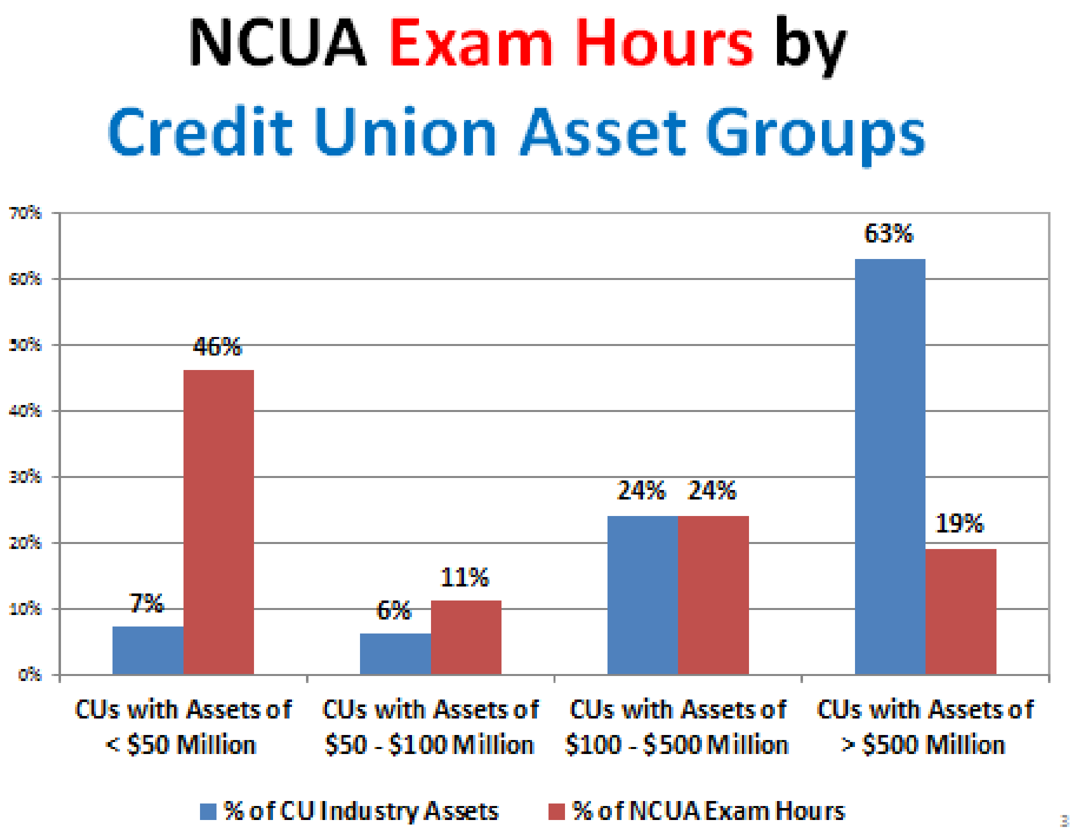
When you're managing your own portfolios, I'm guessing that you're not putting 63% of your money into only 5% of your investments. If you are, you're going to be scrutinizing those investments more closely than the ones that hold less of your assets.

And that's what I'm proposing for NCUA.

The fact is, we cannot always control how many of our eggs are in which basket – nor should we. But it really matters if the baskets holding the most eggs break.

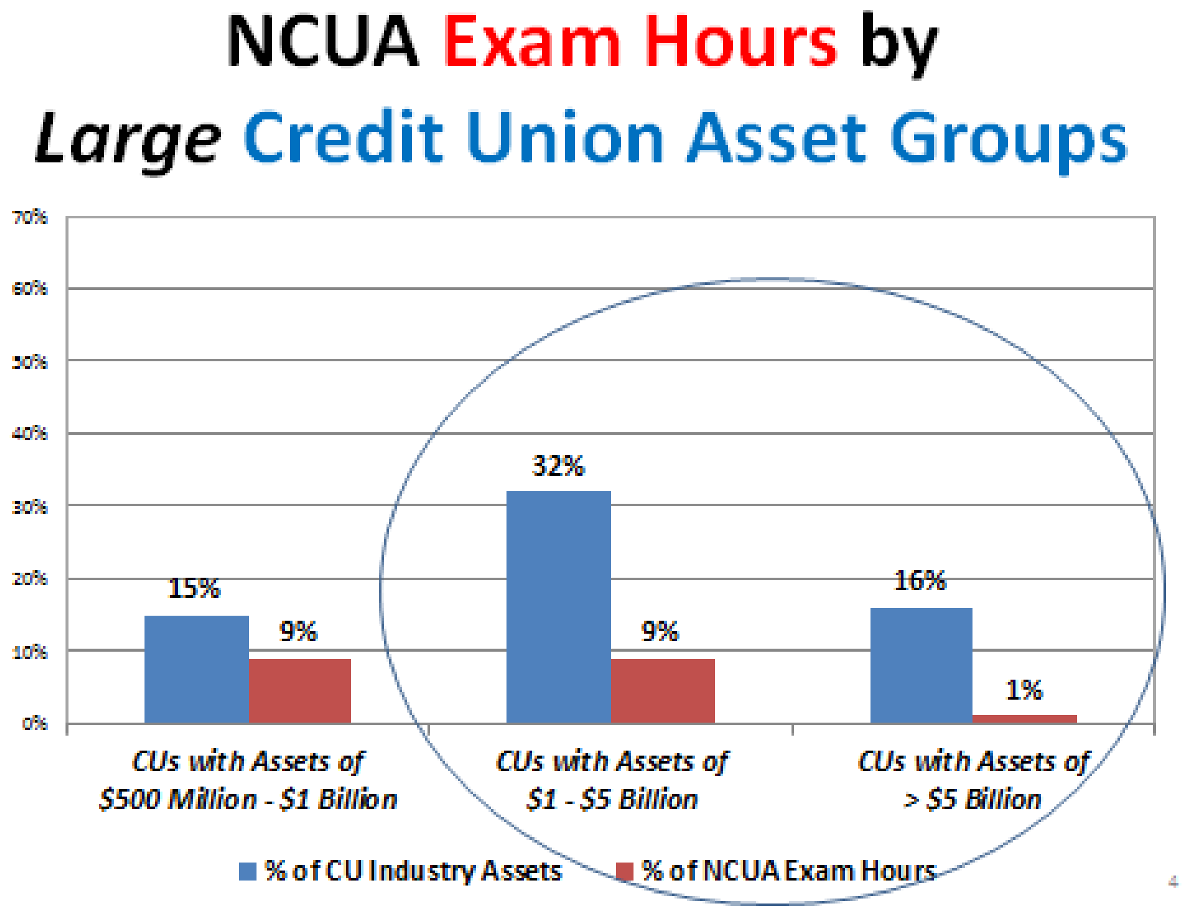
Our $1 trillion industry is backed up by a Share Insurance Fund that is just under $11 billion. This means there are already three credit unions that are larger than the entire Share Insurance Fund. And several other credit unions are closing in. If any one of those credit unions gets into trouble, we literally cannot afford to rescue it.

Meanwhile the ranks of larger credit unions are growing. And as you can see on this slide, the distribution of exam hours and risk is clearly out of balance.



When you look at this graph, you can see on the right that the credit unions holding a combined 63% of industry assets receive only 19% of NCUA exam hours. On the left, credit unions holding only 7% of industry assets receive 45% of exam hours.

This next graph shows that the largest credit unions – those holding over $1 billion each – make up 47% of all the assets in the industry, yet they receive only 10% of the exam hours.



Because it's clear that we need to enhance the supervision of the largest credit unions, effective January 1, 2013, we will reorganize existing resources into a new office:

The new Office of National Examinations and Supervision will oversee the nation's largest consumer credit unions – those over $10 billion in assets – and also assume supervision of corporate credit unions.

This reorganization will establish a single office dedicated to the challenges of supervising the largest credit unions, promoting consistency of exam practices. In addition, it will leverage national and regional expertise to promote high-quality evaluations of risk and risk management practices.

The new office will utilize existing resources to the extent possible. In fact, the current staffing level at NCUA will be sufficient to support the realignment. All staff in the Office of National Examinations and Supervision will be cross-trained to examine and supervise both consumer credit unions and corporate credit unions.

Our staff will be able to develop expertise alongside the growing credit union industry. In addition, we will concentrate more hours and more attention where more of the industry's risk is held.

The intent of these changes is simple, really. We must put our resources where the risk is.

I'm sure a lot of you are thinking the same thing: In a world of limited resources, adding more hours to the examination of large credit unions means NCUA should have to cut back somewhere else. We agree.

NCUA is reallocating examiner resources from smaller credit unions to larger credit unions. This means examiners will be spending less time in well-performing small credit unions.

Currently, we're reducing exam hours in credit unions under $10 million in assets.

But as I indicated, this fall I plan to initiate NCUA Board action to provide exam relief for many more credit unions.

Of course, we are certainly not going to walk away or turn our backs on small credit unions. But we are convinced that it's possible to provide the same level of diligent oversight even more efficiently.

Our Office of Small Credit Union Initiatives, also known as OSCUI, will engage in more of a consultative role. Specifically, NCUA's Economic Development Specialists will be working as strategic planning consultants, providing a wider range of assistance. For example:

- Advising small credit unions how to improve their operations;
- Writing Net Worth Restoration Plans and loan loss analyses; and
- Training on fraud detection, asset/liability management, and fiduciary duties.

At the same time, OSCUI will provide these support services in ways that maximize the number of credit unions they can serve. For instance, OSCUI will reach more credit unions by using DVDs, online videos and webinars, combined with more frequent phone calls to reduce the need for in-person visits.

This is our roadmap for supervision of most small credit unions. In essence, examiners will be administering driving tests – not driving lessons. We're going to take the extra exam hours, and put them to work keeping the road safe for everyone.

In a world where SmartCars share the road with 18-wheelers, we cannot treat every car like it's a four-door sedan.

For most credit unions above the asset threshold for small credit unions, but below $10 billion – you will not see a significant change in exam hours.

For those select few credit unions that are as large as the Share Insurance Fund, that's where the Office of National Examinations and Supervision comes in.

We all know the phrase *Too Big to Fail*. The Office of National Examinations and Supervision is not about keeping credit unions from becoming too big – it's about keeping them from failing.

The credit unions over $10 billion in assets are not too big to fail, but they are big enough to hurt everyone if they do.

A $10 billion payout would nearly deplete the entire Share Insurance Fund – the fund you all pay into. When there's an emergency, you all pay for it. But a failure of that size is not an emergency; it's a disaster.

We need our resources where the risk is – because if one credit union is taking chances that threaten to cause serious losses, that puts every federally insured credit union at risk.

Good risk management isn't just good regulation. It's good business. It's the key to keeping the road safe for everyone on it. And best of all, it's the key to keeping our regulatory oversight minimally invasive.

I began my remarks to you by saying that I wanted to focus on the theme of "growing together." By this I mean that NCUA encourages each and every credit union to innovate and grow. That goes for credit unions big and small.

That's why NCUA is putting our resources where the risk is. We're doing it so the credit union industry can continue to grow and thrive.

NCUA will continue to focus on a sensible allocation of our resources, and on new ways to achieve regulatory conditions for healthy growth.

Growing together means we're in this together. NCUA is going to judge our success by your success. Judging from the talent in this room, I'm optimistic about our outlook.

In closing, let me say that I am aware that while the regulatory environment will define the parameters in which you operate, the success of your operations will always be determined by volunteers like Doug Spitler and Carl Rummel, professionals like Linda Hennings and Bonnie Ciuffo, and CEOs like Jerry Bolduc and John Tippets.

Your success will be defined by your ability to make sure that your leadership reflects and respects the diversity of the people you serve – which is why I was so gratified to see the Women's Leadership Summit you are hosting as part of this conference.

The success of the credit union industry – the future of the credit union industry – isn't back at NCUA headquarters. It's in this room.

You have been through hell – and you've kept going.

So my wish for you and my advice for you are one and the same: Keep going. With an eye on risk, and an eye on the future, keep providing the services your members and our economy need.

If you're able to do that, we will be able to grow together, and the future will be bright indeed.